
Comptroller of the Currency
Administrator of National Banks

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

December 12, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First and Ocean National Bank
Charter Number 1011**

**51 State Street
Newburyport, MA 01950**

The Office of the Comptroller of the Currency

**150 Federal Street, Second Floor
Boston, MA 02110**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First and Ocean National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of December 12, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated outstanding.

Primary factors supporting the bank's overall rating include:

- ▶ The loan to deposit ratio exceeds national and local institutions' at 76.4%.
- ▶ A substantial majority of all loans originated in 1995 and 1996 is within the assessment area.
- ▶ Loans are well distributed to borrowers of all income levels including small businesses.
- ▶ School branch services provide unique opportunities for area students teaching basic financial, credit and banking principals. Additionally, the new Financial Center provides free financial, retirement and educational planning for all area residents.
- ▶ Significant investment of resources was made in formulating the Alliance for Amesbury, an economic developmental group.

The following table indicates the performance level of First and Ocean National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>(NAME OF FINANCIAL INSTITUTION)</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	Not meaningful		
Response to Complaints	No complaints were received since prior examination		

DESCRIPTION OF INSTITUTION

First and Ocean National Bank (FONB) is a \$135 million bank located 40 miles northeast of Boston in the City of Newburyport. It is wholly owned by First and Ocean Bancorp, a one bank holding company. FONB has its main office in downtown Newburyport. The bank maintains three additional, full-service offices in Amesbury, Salisbury, and Newburyport as well as three limited service offices in the following local high schools: Amesbury High, Triton Regional, and Newburyport High. FONB's main office and full service branches operate drive-up teller windows and contain automated teller machines (ATM). Also, FONB participates with four other local community banks in maintaining a free-standing ATM in Salisbury Beach. In early 1996, FONB, in partnership with Mellon Private Asset Management and Invest Financial Corporation, opened a separate investment center in downtown Newburyport.

Competition consists of the Newburyport Five Cents Savings Bank, Newburyport Institution for Savings, The Provident Institution for Savings of Amesbury and, to a lesser extent, Fleet Bank and BankBoston. In April of 1995, FONB acquired the Newburyport operations of the George Peabody Cooperative Bank. As a result, the bank now has a facility adjacent to the Industrial Park and is better able to provide service to numerous small businesses located nearby.

A wide range of loan products are available from the institution including residential mortgage, commercial, and consumer loans. As of September 30, 1996, the loan portfolio totaled \$86 million comprised of 37% residential real estate loans, 40% commercial real estate, 14% commercial and industrial loans, 9% consumer loans, and a nominal amount of agricultural loans.

There are no financial or legal impediments that would prevent FONB from helping to meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA

FONB's assessment area is comprised of fourteen census tracts located within the Boston Metropolitan Statistical Area (MSA), and one census tract in the Lawrence MSA. These areas do not arbitrarily exclude any low- and moderate-income tracts. The assessment area includes metropolitan Newburyport, West Newbury, Amesbury, Salisbury and Seebrook NH. Fourteen of the census tracts are middle or upper income tracts; one (Seebrook) is a moderate income tract. Approximately 65 thousand residents populate this area. The Housing and Urban Development (HUD) MSA median family income is \$56 thousand. The median housing value for the area is very high at \$161

thousand, and the median age of housing stock is 35 years. This coupled with high land values effectively “prices” most low- and moderate-income borrowers out of the housing market. Owner occupied housing represents 58% of the housing stock with 27% rental and 15% multifamily.

Principal industries in the area include Light Industrial, Retail, Service, Tourism and Medical Care. A significant portion of the population commutes into Boston. Unemployment in the area through October 1996 is 4% which compares favorably to the state’s unemployment rate of 4.1%.

Affordable housing for the working class was identified as the primary need of the area. Opportunities for development projects for individuals with low- and moderate-incomes continue to be limited.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio:

FONB’s loan to deposit ratio is more than reasonable and indicates a firm commitment to serving the needs of the community. Over the last eight quarters, the loan to deposit ratio averaged 76.4%, which is considerably higher than both national (70.5%) and local county (71.5%) peers. In addition FONB originates and sells fixed-rate mortgage loans.

Lending within the assessment area:

The 1995 and year-to-date 1996 Home Mortgage Disclosure Act Loan Application Registrar (HMDA-LAR) was reviewed to determine the location of HMDA-reportable loans originated by FONB. Results disclosed that 274 mortgage loans (80%) of the 344 mortgage loans originated in 1995 and year-to-date 1996 were within the assessment area.

FONB conducted their own extensive internal self evaluation for business and consumer credit covering originations between October 1995 and September 1996. Management focused on geo-analysis and income/revenue level of applicants. We evaluated the information (reviewed the analyses) and found it to be accurate. For all types of loans, 86.6% of FONB’s lending activity is within its assessment area. Results indicate FONB is also committed to small business lending. We noted 43 loans to small businesses (defined as businesses with gross annual revenues of less than \$1 million) within the assessment area represented 81% of the sample. These results show a substantial majority of FONB’s lending activity is within the assessment area.

Lending to borrowers of different incomes:

FONB’s distribution of mortgage lending to borrowers of different income levels exhibits good penetration. Low- and moderate-income families represent 38.7% of the families in the assessment area. As illustrated in the table below, FONB’s percentage of loan originations to families within these two income levels aggregating 1995 and YTD

1996 is 24%. This is responsive given the exceptionally high cost of housing in FONB's trade area which effectively "prices" many borrowers out of the market. With a significant 42% of the housing stock being non owner-occupied, there are somewhat limited opportunities in the area for mortgage lending. In response to this, FONB continues to offer a "3% down" affordable home purchase plan, and a mortgage manufactured housing loan purchase program.

Residential Real Estate Originations (000) - Assessment Area								
	1995				1996			
Income Level	# Loans	%	\$ Amt	%	# Loans	%	\$ Amt	%
Low	12	10.7%	407	5.4%	6	3.7%	220	1.9%
Moderate	18	16.1%	876	11.7%	29	17.9%	1,114	9.8%
Middle	41	36.6%	1,889	25.2%	72	44.4%	4,006	35.4%
Upper	41	36.6%	4,331	57.7%	55	34.0%	5,992	52.9%
	112	100%	7,503	100%	162	100%	11,332	100%

In addition to the results depicted above, FONB is ranked number one in Lender Market Share based upon HMDA results of all area originations for home purchases extended to low- and moderate-income borrowers, and number four for all income types. This suggests a higher than average penetration in the low- and moderate-income home purchase market. FONB is ranked eighth in mortgage refinancing to low- and moderate-income borrowers, and tenth for all income types. This further supports FONB's solid commitment to the community credit needs and in particular those needs of low- and moderate-income borrowers. Finally, FONB is ranked as the number three home improvement lender to low- and moderate-income borrowers, and number one in the overall market to all income types.

Again, from the bank's self-evaluation, a substantial majority of consumer loans (52% by number) were made to low and moderate income individuals. This number significantly exceeds the 38% of the population within the assessment area having low- and moderate-incomes. Additionally, the commercial sample disclosed that, by number, 84% of these loans were made to small businesses (defined as businesses with gross annual revenues of less than \$1 million). This is significant given the fact that 54% of outstanding loans are either commercial or commercial real estate loans. (See following chart)

Lending to borrowers of different incomes: - continued

Consumer Loans Sampled (000)				
Income Level	# Loans	%	\$ Amount	%
Low	17	28.4%	75	15.3%
Moderate	14	23.3%	85	17.4%
Middle	14	23.3%	137	28.0%
Upper	15	25.0%	192	39.3%
	60	100%	489	100%

All but one census tract within FONB's assessment area is middle and upper income; therefore, an analysis of the geographic distribution of lending would not provide any meaningful information. Since the last CRA examination, no complaints relative to FONB's CRA activities were received.

Services and community leadership:

The bank operates three limited service "school" branches throughout the lending area. The primary function is to teach basic money & banking principals, business, and personal financial management. Students learn "hands-on" the workings of a financial institution and how to conduct financial affairs essential to functioning in an adult society. These innovative community outreach programs are functioning as a model foundation for several educational "school to work" programs which are encouraged by the Commonwealth of Massachusetts Education Board. Student curriculum focuses a great deal on teaching basic credit principals and allows students to obtain college level credit. The class text is titled "Fundamentals of Banking" and co-sponsored by The New England Banking Institute. Professional speakers are a regular part of the class with bank management contributing significantly as class lecturers. The class syllabus indicates the following basic credit issues are covered: interest, credit reports (establishing and improving ratings), relationship banking, applications, pricing, annual percentage rate, loan fees, mortgages, debt/income ratios, credit cards and other revolving debts, overdrafts, and student loans. Other banking issues include automated teller machines, and deposit accounts. Finally, students actually complete mock applications and form loan committees to learn first hand how to apply for, interview, and understand basic loan underwriting.

The bank also opened a new Financial Center adjacent to the main branch. The center offers a wide variety of investment alternatives but more importantly offers free personalized financial, educational and retirement planning services to the community.

Services and community leadership: - continued

Group seminars are also made available to the public at large and advertised in various newspapers of general circulation.

Additionally, the bank played a leadership role in establishing an ATM in the Salisbury Beach area. In direct response to a community need, management spearheaded an alliance with several other banks in the area to bring the first such machine to this traditionally under served area. This area also has a significant population of low- and moderate-income families.

Finally, the bank was instrumental in the development of the Alliance for Amesbury. Countless hours were devoted by senior management members and approximately \$27 thousand dollars was invested in developing a plan to promote the economy and attract businesses to the local area. Initiatives such as a marketing study, and a development fund were created and used to leverage additional funds from public grant sources. This is a significant undertaking particularly as it unites the area Chamber of Commerce, Town Government, and local Industrial Foundation and encourages future downtown development of the Amesbury market. One of the key missions was the establishment of "The Enterprise Fund." This is a program to underwrite several planning projects and market feasibility studies for this traditionally under-developed area within the bank's assessment area. The results have been positive to the area by improving the marketing strategy and image to potential businesses.

A fair lending review was performed concurrently with this examination. This examination revealed satisfactory compliance with the fair lending laws. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.